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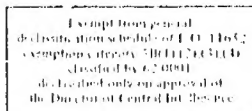
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(VIETNAM: South Vietnamese paratroopers are reportedly in Quang Tri City and are encountering only light resistance.

To the south, the Communists are maintaining some pressure on Hue. Shelling attacks appear to have caused about one fourth of the city's residents, who had returned following the earlier fighting, to leave once again. The recent flurry of attacks against Hue notwithstanding, there is some evidence that the Communists have been forced to scale down their objectives. [REDACTED]

[REDACTED] Viet Cong cadre near Hue are now being told that there will be no significant assault against the city until October at the earliest and that the Communists will confine themselves to artillery and sapper attacks in the intervening months.

While things are going badly for them in the north, the Communists have increased the pressure on government positions throughout the Mekong Delta. The heaviest action has been in Kien Phong Province, where enemy ground attacks forced government territorialists to withdraw from several support bases yesterday. Additional bases were reported isolated in nearby Dinh Tuong Province, while farther south in the An Xuyen - Chuong Thien provincial area, several positions were hit by heavy mortar and rocket fire. (SECRET NO FOREIGN DISSEM)

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ISRAEL: Another threat to Prime Minister Meir's governing coalition has been raised by Agudat Israel, a small ultra-orthodox religious party, which has injected itself into the explosive civil marriage issue.

Mrs. Meir's coalition has been squabbling since June over a bill introduced by the Independent Liberal Party, a coalition member, which would permit civil marriages in certain cases now denied under religious law. The proposal has drawn broad popular support but is sharply opposed by the National Religious Party (NRP), whose continued participation in the coalition the Prime Minister has up to now considered essential to maintaining the present government. Left-wing members of Mrs. Meir's own party have been attracted to the civil marriage bill, but appear to have been brought back into line by her threat to resign unless they maintain party discipline. Settlement of the issue had been postponed until the Prime Minister's return on 3 July from the Socialist International meeting in Vienna.

In her absence, the Agudat party introduced a counter-bill that would impose even stricter compliance with orthodox religious laws on the "Jewishness" of immigrants. The effects of this bill would fall particularly hard on immigrants from the US and the Soviet Union.

The NRP might have been satisfied merely to have the civil marriage bill killed, but it is now strongly tempted to underline its religious bonafides by going on record in support of the Agudat bill. It may also see this as a means of burying the civil marriage proposal altogether. Mrs. Meir has been forced to warn NRP leaders that they too must maintain coalition discipline or be expelled from the government when the Agudat bill comes to a vote next week.

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The stage has thus been set for a split in the coalition that could lead the Prime Minister to resign. Although some leaders of her party think this might be a good time to hold new elections, Mrs. Meir probably prefers to work for another compromise that would permit the present government to continue. Whatever the true feelings of the parties involved, the introduction of these two bills has sharply raised the temperature of the contestants as they jockey for position for the elections in October 1973. (CONFIDENTIAL)

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SUDAN: President Numayri has floated a trial balloon regarding the resumption of diplomatic relations with the US.

Numayri, in a weekend speech, said that US aid to the southern provinces had persuaded him to reconsider normalization of ties. He gave no indication of timing, but he probably would not act before his return in two weeks from a swing through East Africa.

Numayri seems to be mainly concerned with domestic reaction. Sudan's deputy foreign minister told a US official in Khartoum that the controversial question of renewed ties has not yet been discussed in the cabinet and that Numayri will no doubt come under heavy criticism from some pro-Egyptian ministers. Numayri will probably answer his critics by stressing the country's desperate need for US economic assistance. He will argue that US aid to the war-torn southern provinces demonstrates Washington's willingness to contribute to the country's development. In an effort to balance the move toward the US, Numayri may also propose that relations be restored with the Soviet Union and Iraq.

The Egyptians are clearly unhappy with Numayri's latest display of independence. They probably will attempt to dissuade him as they did last December when he seemed on the verge of renewing ties with Washington. Cairo's semi-official newspaper Al Ahram has already blasted Sudan, as well as Yemen (Sana) which re-established relations with the US Saturday, for having "sold out the Arab cause."
(CONFIDENTIAL)

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PANAMA: The government has publicly committed itself to buy or expropriate the US-owned power and light company.

Negotiations for a new contract governing the company's operations in Panama were broken off by the Torrijos government last week. Panama had demanded that the company embark upon a sizable investment program over the next five years to keep up with the growing demand for electricity and telephone service in the Panama City area. The company, however, has insisted that it could not carry out such a program at the rate of profit the government was prepared to concede.

New government decrees have extended the month-old occupation of the company for an additional 60 days, authorized the government to acquire all of the company's assets, and provided for expropriation if agreement on purchase price and form of payment is not reached within 60 days. There presumably would be compensation for the expropriation.

President Lakas and the more business-oriented members of the government, worried about possible effects on private investment, have argued against expropriation. They also have characterized purchase of the company as a costly diversion of the government's slender financial resources. General Torrijos, apparently believing that international capital markets will share the relatively mild reaction of the domestic business community, has been swayed by political rather than economic considerations. He is interested in overcoming popular apathy about next month's legislative elections and in drumming up additional support for his regime. The power and light company, long the focus of popular discontent, is a convenient foil. (CONFIDENTIAL NO FOREIGN DISSEM)

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CHILE: The results of the first direct election of officers of the Trade Union Confederation (CUT) are still bogged down in controversy a month after the voting.

The Communist Party, which with Socialist Party cooperation dominated the CUT for years, will show the largest plurality and get most of the top posts. The opposition Christian Democrats, however, made a surprisingly good showing, and their claims of fraud in vote counting were too loud to be ignored. The Communists, annoyed by an all-out Socialist challenge for the CUT leadership and in a mood to butter up the Christian Democrats, appear disposed to allow the latter to capture second place.

The Communists' partners in the government coalition are making public charges that reveal bitter infighting in the vote counting. Radical Party representatives stormed out of the CUT electoral commission last week, charging serious irregularities, and the confusion was compounded when the Socialist delegate demanded new elections among construction workers. The Radicals and the Socialists both claimed to have full backing for their positions from their respective parties.

Difficulties among Popular Unity (UP) parties are becoming harder to conceal. The Communists value the CUT highly as an important area of influence. They may feel that favoring the Christian Democrats will beat back their UP partners' attempts to assert co-leadership of the CUT. (CONFIDENTIAL)

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KOREA: The agreement reached in the secret talks is a major step toward resolving differences between North and South Korea, but Seoul still appears intent on moving cautiously on fundamental political problems affecting the two countries.

The text of the communiqué indicates that Seoul has resisted Pyongyang's efforts to move the next round of negotiations to a substantive political level. The communiqué deals in general terms on achieving political unification but focuses specifically only with less controversial humanitarian, economic, and cultural matters. The cautious South Korean leaders are likely to insist on tangible progress in these areas before committing themselves to substantive political discussions.

The text makes no mention of a future summit meeting between Kim Il-sung and President Pak Chong-hui, which the North Koreans have been seeking. It also fails to specify the duties, membership, and future responsibilities of the coordinating committee set up under the agreement. South Korean CIA Director Yi Hu-rak implied, however, in his press conference following the announcement, that the committee's work would in part be devoted to the less controversial questions.

The announcement will nonetheless create some political difficulties for the South Korean Government. Opposition politicians are strongly objecting to the fact that the agreement was made without prior consultations with the legislature, and they can be expected to criticize the government roundly at the current special session of the National Assembly. After 20 years of describing Pyongyang as the epitome of evil, Seoul will need to reassure conservative elements, particularly within the military, that it is exercising caution. It must also move to curtail popular expectations about where the talks will eventually lead. CIA Director Yi in his

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Press conference sought to scotch speculation that the agreement will mean unification in the near future by stressing the need for continued vigilance.

There will also be increased pressure on Seoul to lift some of the emergency measures and anti-Communist laws directed at protecting the nation against North Korean subversion and aggression. The opposition is calling for an end to the emergency situation, and Yi's remarks indicate the government may be prepared to give some ground on this score.

The announcement will also have significant implications for the Korean question at the UN, where both sides will endeavor to use the talks to buttress their positions. In addition, Seoul's public acceptance of the principle of non-interference will be used by the North to press for accelerated US withdrawal from the peninsula.

In the tightly controlled society of North Korea, Kim will face far fewer problems in writing off two decades of hysterical propaganda directed against South Korea. The North Koreans took steps before the announcement to prepare party leaders to explain these developments to cadre and the general population. A plenum of the party central committee which opened on 1 July focused exclusively on the reunification question. In his opening report Kim Il-sung almost certainly provided details on the talks and guidance on handling the matter. Pyongyang is now giving extensive domestic coverage to the announcement.

In the international sphere, Kim hopes to derive additional prestige and diplomatic recognition from the dialogue with the South. Japanese Government officials, for example, have already indicated that the talks could have some effect on Tokyo's attitude toward North Korea. (CONFIDENTIAL)

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CHINA: The regime's lackluster observance of another major holiday attests to continuing political tensions within the top leadership. The anniversary of the party on 1 July passed without the customary joint editorial, usually the forum for major policy pronouncements. No special events were held, although there was a large leadership turnout for an unrelated event on the same day. The turnout seemed designed to reassure the populace of the regime's stability and continuity despite its persistent failure to observe important events in customary fashion. The muted celebration, particularly the lack of a joint editorial, strongly suggests that the recent month-long leadership conference in Peking failed to resolve the many problems still plaguing the regime. (CONFIDENTIAL)

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EGYPT-LIBYA: The two countries have signed a series of agreements intended to improve cooperation in economic matters. Cairo and Tripoli already had taken some initial steps toward greater cooperation in a variety of fields, but Egypt will remain reluctant to move too quickly or too far on Libyan Premier Qadhafi's schemes for unification. One agreement establishes objectives for and coordinates the activities of Egyptian companies already operating in Libya in construction, reclamation, and electrification. Other agreements provide for the promotion of bilateral trade and for the establishment of jointly owned companies to develop high seas fishing and to study and implement development projects in the signatory countries and in other countries of Africa and the Arab world. A permanent committee to monitor implementation of trade and technical cooperation agreements is to be set up. (CONFIDENTIAL)

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